STATE OF ALASKA

BILL WALKER, GOVERNOR

550 WEST 7TH AVENUE
ANCHORAGE, ALASKA 99501
PHONE: (907) 269-8690
FAX: (907) 269-5673

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF PROJECT MANAGEMENT & PERMITTING

May 2, 2016

Abigail Ross Hopper
Director, Bureau of Ocean Energy Management
1849 C Street, NW
Room 512
Washington, DC 20240-0001

Submitted via the Federal eRulemaking Portal

Re: State of Alaska Comments on Notice of Availability (NOA) of and Request for Comments on the 2017-2022 Outer Continental Shelf (OCS) Oil and Gas Leasing Proposed Program (MA 104000) and Preliminary Draft Environmental Impact Statement (PDEIS), Docket No. BOEM-2016-0003

Dear Ms. Hopper:

Recently, the Department of the Interior, through the Bureau of Ocean Energy Management (BOEM), issued a request for information soliciting comments for the 2017-2022 Five-Year Draft Proposed Outer Continental Shelf (OCS) Program and Draft Programmatic Environmental Impact Statement (PDEIS). The following comments on this proposed program are intended to help BOEM comply with the Outer Continental Shelf Lands Act (OCSLA), and the consultation process therein, ultimately to develop and approve a new proposed oil and gas leasing program (2017-2022) in the OCS.

The proposed Program delays the opportunity for future lease sales in Alaska, offering sales later in the 5-year program term for the Beaufort Sea (2020), Cook Inlet (2021), and the Chukchi Sea (2022). Of particular concern, the Beaufort Sea OCS leases have not been offered for sale since 2007. The State of Alaska continues to strongly encourage BOEM and the Department of Interior to avoid delaying offshore OCS leasing in the three Alaska planning areas. There is sufficient information available, collected from years of data gathering and traditional knowledge, about these planning areas to proceed with activities that comply with defined mitigation and environmental stipulations designed to relieve adverse impacts.

Unfortunately, the 2017-22 Proposed Program continues a pattern of limiting economic opportunity for Americans by utilizing a regionally-tailored, targeted leasing strategy instead of an area wide approach. The State of Alaska opposed this approach when it was adopted by BOEM for the current 2012-17 program because targeting specific areas for future lease sales does not "balance" the need to make resources available and does not reflect what is presently known about the tremendous undiscovered resource potential in the U.S. Arctic. In fact, the

recent BOEM Call for Information for the Program specifically notes that OCS oil and gas resources accounted for 18 percent of domestic oil and gas production in 2013. The 2017-22 RFI provides BOEM's current estimates of the OCS undiscovered, technically recoverable oil and gas resource as a key aspect for the implementation of President Barack Obama's all-of-the-above energy strategy. This strategy "includes expanding the safe and responsible production of U.S. domestic oil and gas supplies, both onshore and offshore … to create a more efficient and predictable oil and gas leasing environment for government, industry and stakeholders." (emphasis added).

Alternative B and its variations (B1b and B2b), would remove over 8 million acres of the most prospective OCS areas from future lease sales in the Beaufort and Chukchi Seas. Specifically, the Cross Island Environmentally Important Area (EIA) includes the majority area north of Prudhoe Bay and would exclude valuable prospects closest to existing infrastructure. The Cross Island exclusion or restriction area would limit future opportunities to utilize existing infrastructure, thereby limiting the same opportunity to minimize potential future environmental impacts. If chosen, Alternative B1b would significantly obstruct the potential to extend the operating life of existing North Slope facilities including the Trans-Alaska Pipeline System (TAPS), which would have deleterious impacts on the State's economic future.

We are aware of the North Slope Borough's request that areas around Cross Island be protected. The proposed Cross Island EIA, however, goes far beyond any request of the Borough. Additionally, the North Slope Borough has shared with the State their concern that BOEM has not engaged in an adequate amount of consultation with them. Further, the Borough does not understand how the Department of the Interior created EIAs and secondly how the boundaries of EIAs have been created. As you know, OCSLA requires full and complete consultation with executives of the local government. See, OCSLA, § 18(c)(2). Meeting the letter of the law is important but, in this case, meeting the intent is every bit as important.

The rationale supporting the exclusion areas in the Beaufort Sea, including Cross Island, cite the potential for major impacts to marine mammal subsistence activity. We question the premature need for removing large swaths of OCS leasing potential from a 5 year Program and based on this rationale. It appears undue consideration has been made for the existing mitigation requirements and actions already in place to effectively address marine mammal subsistence impacts. For example, the Alaska Eskimo Whaling Commission (AEWC) and associated Conflict Avoidance Agreement process is one mechanism already in place to help effectively address the subsistence user's concerns and mitigate potential impacts through close consultation and cooperation with industry.

BOEM's analysis of the economic impact of OCS production from the Beaufort and Chukchi Sea fails to adequately account for the impact that production will have on the economic value of North Slope production by allowing for substantially lower TAPS tariffs through the currently contemplated end of TAPS life of 2044. Assuming Beaufort Sea production comes on-line in 10 years (2024), Beaufort Sea production through 2044 will lower the volume weighted average TAPS tariff over the subsequent 20 years from around \$21.56 to \$6.85 per barrel. Adding Chukchi Sea production starting in 2028 will additionally decrease the volume weighted average tariff to \$4.85 per barrel over the subsequent 16 years. The lower tariff will increase State

revenue by almost $8 billion over this 20 year period, even apart from the benefits arising from extending TAPS life or allowing for new development due to substantially lower transportation costs. The Net Social Value analysis outlined in the 2017-2022 OCS Oil and Gas leasing Draft Proposed Program considers only gross revenue and costs, without quantifying the additional economic value due to its sharing of largely fixed pipeline transportation costs.

In 10 years, the TAPS tariff will be over $10 a barrel (versus $6.70 today), and TAPS production will be a little over 300,000 barrels a day per the latest 2016 Spring Revenue Sources Book. There will be about 1.4 billion barrels of remaining reserves to 2044, when production will dip below 100,000 barrels a day. Over this period the TAPS tariff will steadily increase as production declines, and maintenance costs increase with inflation and the additional spending needed to address low flow issues. By 2030, the tariff will be close to $20 a barrel; by 2040 well over $30 per barrel. More and more of the crude value will be absorbed in the cost of transporting that crude to market, and less will be available to share between the State and producers on the North Slope.

Per the recent 2016 OCS resource assessment, at $60 a barrel there is 4.1 billion barrels of risked, economically recoverable barrels in the Beaufort Sea, and 2.87 billion barrels of risked, economically recoverable, barrels in the Chukchi. These resource estimates far exceed the 1.4 billion barrels of remaining on-shore reserves from currently producing areas that the State forecasts in 2024. Adapting the production profile derived based on a 2006 Resource Assessment to this recent resource assessment, the State sees the possibility of a TAPS pipeline primarily in the business of transporting OCS Beaufort and Chukchi Sea barrels while State production makes up a quarter of the total. While the State shares in OCS revenues only on limited basis, the value of its production will be substantially higher due to the cost sharing of TAPS between OCS and on-shore production. The State should receive over the 20 year period 7.7 billion dollars more than it otherwise would have from its production due to OCS production.

The State continues to urge BOEM to hold more frequent and predictable sales under an area wide approach. The State uses an area wide approach in its leasing program that allows all non-withdrawn tracts to be offered at the same time. This approach is consistent with both BOEM's approach in the GOM and for meeting the purpose of the OCS Land Act "to ensure that the extent of oil and gas resources of the Outer Continental Shelf is assessed at the earliest practicable time." With the increased exploration of the state submerged lands in Cook Inlet and the Beaufort Sea, conducting more lease sales of the adjacent federal OCS lands of the Cook Inlet and Beaufort Sea would allow interested parties to consider exploratory programs to assess the resource prospectivity on both state submerged and adjacent federal OCS lands.

Of particular import, the Chukchi Sea planning area is by far the most prospective of all Alaska OCS areas. Although the amount of exploration activity has been limited due to a number of factors, the record high lease bonuses and expenditure of $6 billion by one leaseholder to support exploration drilling certainly provides evidence of the great potential that exists. Recent exploration efforts have provided the first new exploration data in decades and have only heightened interest in the potential of the Chukchi Sea. Access is critical to ensuring that this work is allowed to continue.

On July 25, BOEM issued a Call for Information and Nominations for a 2017 oil and gas lease sale within the Beaufort Sea Planning Area. The State renews its objection for the targeted approach that the Agency is utilizing in this regard. The State does feel that it remains critical for the oil and gas potential of this area be utilized on the nation's behalf. In meeting Section 18 of the OCS Lands Act, the State recommends that leasing the submerged OCS lands of the Beaufort Sea with resource potential and proximity to the producing Alaska North Slope fields be recognized as a significant opportunity in meeting our national energy needs. Leasing, exploration and development of leased Beaufort Sea lands would capitalize on the existing oil and gas infrastructure and the capacity available in the Trans-Alaska Pipeline System (TAPS).

Further, several prospective areas within the Beaufort Sea planning area – if in production – would produce 8(g) revenue under OCSLA. Current 8(g) revenue is limited to the Northstar field. The State could greatly enhance the royalty revenue streams to the State of Alaska if areas along the coast – in particular areas close to existing infrastructure – were developed.

Also, the State will continue to align itself with the interests of the communities along the Arctic coast. As Governor Walker noted in a prior letter, the State of Alaska – through the Alaska Department of Natural Resources (DNR) – has a signed a Memorandum of Understanding (MOU) with the North Slope Borough regarding the coordination of authorization and permitting activity for oil and gas exploration and production on the North Slope of Alaska. The MOU ensures that we as a State look to the communities located along the Arctic coast when addressing these matters. We take our obligations under the MOU seriously and will continue to seek collaboration and input from the whalers and hunters in this region.

The State of Alaska strongly encourages BOEM to adhere to a five-year leasing plan that ensures timely and predictable access to Alaska's highly prospective OCS lands. The state has agency experts with significant expertise in the prudent development and management of Alaska's resources. We look forward to continuing our work with BOEM to provide this expertise as a cooperating agency during the NEPA review process for the Programmatic Environmental Impact Statement (EIS).

Sara Longan, Executive Director
Office of Project Management & Permitting
Alaska Department of Natural Resources

cc: Marty Rutherford, Acting Commissioner, Alaska Department of Natural Resources
Craig Fleener, Senior Advisor for Arctic Policy, Office of the Governor, State of Alaska
Nathan Butzlaff, Associate Director of State and Federal Relations, Office of the Governor, State of Alaska